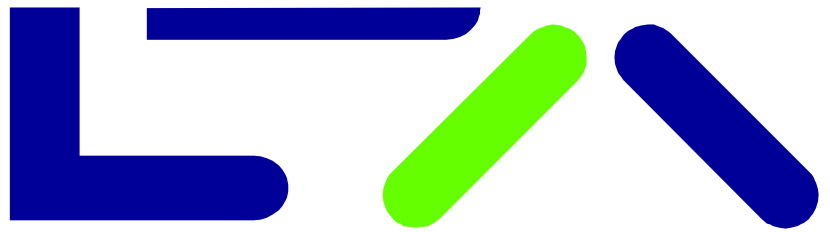


X-pand into the Future



eurex circular 217/07

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Recipients: All Trading Members of Eurex Deutschland and Eurex Zürich and Vendors
Authorized by: Peter Reitz

 **High priority**

HICP Index: Introduction of Euro Inflation Futures

Contact: Nadja Urban, Product Strategy: tel. +49-69-211-1 51 05,
E-Mail: nadja.urban@eurexchange.com
Joachim Heinz, Product Strategy: tel. +49-69-211-1 59 55,
E-Mail: joachim.heinz@eurexchange.com

Content may be most important for:

Ü All departments

Attachments:

Updated sections of:

1. Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland und Eurex Zürich
2. Clearing Conditions for Eurex Clearing AG
3. Price List

Summary:

The Management Boards of the Eurex Exchanges decided to introduce a new Futures contract ("Euro Inflation Future") on the unrevised Harmonized Index of Consumer Prices of the eurozone excluding tobacco (HICP) as of **January 21, 2008**.

With the introduction of Euro Inflation Futures, Eurex responds to the increasing trading volume in inflation-linked cash and OTC derivatives.



Eurex Deutschland
Neue Börsenstraße 1
60487 Frankfurt/Main
Mailing address:
60485 Frankfurt/Main
Germany

T +49-69-211-1 17 00
F +49-69-211-1 17 01
customer.support@eurexchange.com
Internet:
www.eurexchange.com

Management Board:
Thomas Book, Thomas Lenz,
Michael Peters, Andreas Preuß,
Peter Reitz, Jürg Spillmann
ARBN: 101 013 361

HICP Index: Introduction of Euro Inflation Futures

The Management Boards of the Eurex Exchanges decided to introduce a new Futures contract ("Euro Inflation Future") on the unrevised Harmonized Index of Consumer Prices of the eurozone excluding tobacco (HICP) as calculated by the Statistical Office of the European Communities ("Eurostat") and published on their website:

<http://epp.eurostat.ec.europa.eu>

Consumer price indices are economic indicators constructed to measure the changes over time in prices of consumer goods and services acquired, used or paid by households. Amongst other things they serve as a guide for monetary policy, for indexation of commercial contracts, wages, social protection benefits or financial instruments.

With the introduction of Euro Inflation Futures, Eurex responds to the increasing trading volume in inflation-linked cash and OTC derivatives. In particular the growth of the European OTC derivatives market (e.g. Zero Coupon Inflation Swaps) boosted the Eurex members' demand for efficient and low-cost hedging instruments for managing short term inflation risks.

As a general rule, both inflation and inflation expectations are subject to only minor changes during the course of a given day. In order to accommodate this market behavior, Eurex has determined a market model based on two daily auctions. Designated Market Makers will provide liquidity mainly in two auctions and thereby concentrate the offer of liquidity during these two time periods. Between the two auctions, continuous trading will be available which will be supported by "quotation on request".

1. Introduction date

The introduction will take place on Monday, January 21, 2008.

2. Contract specifications

Underlying	unrevised Harmonised Index of Consumer Prices of the eurozone excluding tobacco (HICP)
Eurex product code	HICP
ISIN	DE000A0QZFK9
Contract value	EUR 1,000.000
Settlement	cash settlement, payable on the first exchange trading day after the final settlement day
Price quotation	in percent, with two decimal places based on 100 minus the annual inflation rate based on the HICP
Minimum price change	0.01 percent; equivalent to a value of EUR 100
Contract months	the next twenty successive calendar months. Relevant for the futures contract is the annual inflation rate of the twelve-month period preceding the maturity month (e.g. Feb08 maturity month refers to the annual inflation rate measured in the time period between January 2007 and January 2008)
Last trading day	Last trading day and final settlement day of the Euro Inflation Futures contract is the day Eurostat announces the HICP index, if this is an exchange trading day; otherwise, the next exchange trading day. Close of trading for the maturing contract month is 10:00 CET

Daily settlement price	the daily settlement price is the closing price fixed in the closing auction. If it is not possible to fix a closing price within the closing auction, or if the price thus fixed does not reflect the actual market conditions, Eurex Clearing AG will determine the settlement price by means of a theoretical pricing model.
Final settlement price	<p>will be determined by Eurex on the final settlement day. Relevant is the unrevised Harmonised Consumer Price Index of the eurozone excluding tobacco published by Eurostat on this day.</p> <p>The final settlement price of a Euro Inflation Futures contract will be calculated in percentage with four decimal places based on 100 minus the annual inflation rate of the twelve months period of the HICP preceding the maturity month (also rounded to four decimal places). The underlying formula for the calculation of the maturing contract month (t) is:</p> $FSP_t = 100 - [100 * (HICP_{t-1}/HICP_{t-13} - 1)]$ <p>E.g., for the August 2007 contract, the applicable HICP figures are those for July 2007 (104.14 released on August 16, 2007) and July 2006 (102.38 released on August 17, 2006). The final settlement price is calculated accordingly: $100 - [100 * (104.14/102.38 - 1)] = 98.2809$</p> <p>The final settlement price is calculated on the last trading day after Eurostat's publication of the latest index (approx. 11:15 CET)</p>

For the detailed Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich and the Clearing Conditions for Eurex Clearing AG, please see attachments 1 and 2.

3. Trading hours*

Product	Pre-Trading	Opening Auction	Continuous Trading	Closing Auction	Post-Trading
Euro Inflation Index Futures	09:00-09:45	09:45-10:00	10:00-16:45	16:45-17:00	17:00-17:30

* all times in CET; on the last trading day until 10:00.

4. Transaction fees

Transaction fees for trading with Euro Inflation Futures will be EUR 0.50 per contract for matching of order book transactions. For further information, please see attachment 3.

5. Simulation

Euro Inflation Futures will be available for simulation as of October 26, 2007.

6. Further Information

More information on trading of the Euro Inflation Futures at Eurex (further operative parameters, Vendor Product Codes etc.) will be published in Eurex circulars in due time before the introduction takes place.

Frankfurt, October 25, 2007

[....]

1 Part:
Contract Specifications for Futures Contracts

[....]

1.8 Part: Contract Specifications for Inflation Futures Contracts

The following part contains the contract specifications for Futures contracts on the unrevised harmonized index of consumer prices (HICP) of the eurozone excluding tobacco (Euro Inflation Future).

1.8.1 Subject Matter of Contract

A Euro Inflation Future is a Futures Contract on the unrevised harmonized index of consumer prices excluding tobacco- calculated and published by Eurostat (Statistical Office of the European Union). This index is published by Eurostat once per month on a regular basis. The value of a contract is 10,000-times the Euro-Inflation Future price in Euro, defined as 100 minus the yearly inflation rate. Relevant for the futures contract is the yearly inflation rate of the calendar month preceding the contract month in relation to the respective month of the year before.

1.8.2 Settlement Obligation

After close of trading, the seller of a Euro Inflation Futures Contract is obligated to settle in cash the difference between the agreed price and a higher final settlement price (Chapter II Number 2.2.3 of the Clearing Conditions of Eurex Clearing AG). The buyer is obligated to settle in cash the difference between the agreed price and a lower final settlement price.

1.8.3 Term

~~1.8.1~~ For Euro Inflation Futures Contracts terms expiring on the final settlement day (Number 1.8.4 Paragraph 1) of the respectively following 20 calendar months are available at the Eurex Exchanges.

1.8.4 Last Trading Day, Final Settlement Day, Close of Trading

The last trading day and final settlement day of the Euro Inflation Futures Contract shall be the day of the announcement of the HICP by Eurostat, provided this is an Exchange day; otherwise, this shall be the following Exchange day of the respective settlement month (calendar month pursuant to Number 1.8.3).

Close of trading of the Euro Inflation Futures Contract on the last trading day shall be 10:00 a.m. CET.

1.8.5 Price Gradations

The price of a Euro Inflation Futures Contract shall be calculated in per cent with two decimal places on basis of 100 minus the yearly inflation rate of the 12-month period preceding the contract month of the unrevised harmonized index of consumer prices of the eurozone excluding tobacco. The smallest price gradation (tick) shall be 0.01 percent; this equals an amount of EUR 100.00.

1.8.6 Fulfilment, Cash Settlement

- (1) Fulfilment day for Euro Inflation Futures Contracts is the Exchange day after the last trading day.
- (2) The fulfilment of the Euro Inflation Futures Contracts shall be carried out by cash settlement between the Clearing Members. The responsible Clearing Member shall be in charge of the cash settlement to Non-Clearing Members and own customers; the Non-Clearing Members are in charge of the cash settlement to their customers.

[...]

Annex C in relation to Contract Specifications:

Trading Hours Futures Contracts

[...]

Inflation Futures Contracts

Product	Product ID	Pre-Trading-Period	Continuous Trade	Post-Trading Full Period	OTC Block Trading	Last Trading Day	
-	-	-	-	-	-	Trade until	-
Euro Inflation Futures	HICP	09:00-09:45	09:45-17:00	17:00-17:30	09:45-17:00	10:00	

all times CET

[...]

[....]

Chapter II

Transactions at Eurex Deutschland and Eurex Zürich (Eurex Exchanges)

[....]

Part 2

Clearing of Futures Contracts

The following Numbers shall rule the Clearing of transactions of Futures contracts which have been named in Number 1 of the Contract Specifications for Futures contracts and Options contracts at Eurex Deutschland and Eurex Zürich.

2.1 General Provisions

The "General Provisions" pursuant to Chapter II Number 2.1 apply for all Futures contracts unless specific or rules deviating from the "General Provisions" pursuant to Chapter II Number 2.2. to 2.9~~5~~ apply to the respective Futures contracts.

[....]

2.9 Part

Clearing of Inflation Futures Contracts

The following numbers rule the clearing of transactions in the Euro Inflation Futures Contracts named in Number 1.8 of the Contract Specifications.

2.9.1 Payment Procedure

All payments are effected directly between the Clearing Members via their accounts with a branch of the German Federal Bank on the Exchange day following the final settlement day (Number 1.8.4 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich). All Clearing Members have to guarantee their capacity to pay on the due date by a respective credit on their accounts with a branch of the German Federal Bank or on the account with a branch of the German Federal Bank of the correspondent bank included by the Clearing Member for purposes of settlement of the contract.

2.9.2 Final Settlement Price

(1) For the Euro Inflation Futures Contracts, the final settlement price of a contract shall be determined by Eurex Clearing AG on the final settlement day (Number 1.8.4 Paragraph 1 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich) on basis of the unrevised harmonized index of consumer prices of the eurozone excluding tobacco- (HICP) published by Eurostat on this day-. The publication of the HICP shall be carried out on a regular basis during the calendar month following the calculation period.

(2) The final settlement price of a Euro Inflation Futures Contract shall be calculated in percent with four decimal places on the basis of 100 minus the yearly inflation rate of the 12-month period preceding the

contract month (calculation period) of the unrevised harmonized index of consumer prices of the eurozone excluding tobacco (also rounded to four decimal places). The formula to calculate the Final Settlement Price of the maturing contract month is as follows:

$$FSP_t = 100 - (100 * (HICP_{t-1}/HICP_{t-13} - 1))$$

FSP_t Final Settlement Price for the current contract month t

HICP_{t-1} unrevised harmonized index of consumer prices of the eurozone excluding tobacco for the calendar month t-1

HICP_{t-13} unrevised harmonized index of consumer prices of the eurozone excluding tobacco for the calendar month t-13

(3) In case a publication of the unrevised harmonized index of consumer prices of the eurozone excluding tobacco by Eurostat does not take place on the scheduled final settlement day or later than one calendar month after the relevant reporting period, the final settlement price (rounded to two decimal places) shall be calculated by means of the advance estimate of the inflation rate of the eurozone including tobacco published by Eurostat (Monetary Union Index of Consumer Prices - MUICP_{Y_N}) as follows:

$$FSP_t = 100 - [HICP_{Y_Nt-2} + (MUICP_{Y_Nt-1}^e - MUICP_{Y_Nt-2})]$$

FSP_t Final Settlement Price for the current contract month t

HICP_{Y_Nt-2} Inflation rate of the harmonized consumer price index of the eurozone excluding tobacco for the calendar month t-2

MUICP_{Y_Nt-1}^e Estimated inflation-rate of the eurozone for the calendar month t-1

MUICP_{Y_Nt-2} Inflation rate of the eurozone for the calendar month t-2

The advance estimate shall be published by Eurostat as of the end of the relevant calendar month respectively at the beginning of the following calendar month. In this case, there shall be no adjustment of the final settlement price upon publication of the value of the unrevised harmonized index of consumer prices of the eurozone excluding tobacco even in case of a deviation.

2.9.3 Fulfilment, Delivery

Open Positions of the last trading day shall be settled by a remaining amount which is credited to or debited from the internal cash settlement account of the Clearing Member. The amount to be entered shall be calculated on the final settlement day (Number 1.8.4 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich) by means of the difference between the final settlement price of a contract and its daily settlement price of the previous Exchange day, provided that the positions have already existed on the previous day. For positions opened on the last trading day, the amount to be entered shall be calculated by the difference between the final settlement price and the trading price. The cash settlement pursuant to Clause 1 shall then be carried out on the fulfilment day; this is the Exchange day following the final settlement day.

2.9.4 Delay

For delay respectively technical delay, the regulations pursuant to Chapter I Number 7.1 or Number 7.1 shall apply.

[...]

[...]

3.1 Matching of Exchange Transactions / Recording of Derivatives Transactions (Trade)

3.1.1 Exchange Transactions

3.1.1.1 Regular Transactions

Contract	Fee per Contract A and P Accounts	Fee per Contract M-Accounts (Regular Market-Making)*	Fee per Contract M-Accounts (Permanent Market-Making)*	Fee per Contract M-Accounts (Advanced Market-Making)*
[...]				
Credit Derivatives				
Futures				
iTraxx® Europe 5 Year Index Future**, iTraxx® Europe Hi Vol 5 year Index Future**, iTraxx® Europe Crossover 5 Year Index Future**	EUR 0.40			
Single Credit Recovery Future	EUR 0.10			
Inflation Derivatives				
Euro Inflation Future	EUR 0.50			

* If the Market Maker requirements determined by the Boards of Management of the Eurex Exchanges are met, transaction fees paid for trades (Market Maker) shall be subject to a refund, the actual fees for order matching on M-accounts thus amounting to the monthly total specified in the column "Fee per Contract M-Accounts".

** Credit Futures Contract on the iTraxx® Europe, Hi Vol and Crossover 5 Year Series respectively valid at the time of introduction of the Futures Contract as well as Credit Futures Contract on the new version of the iTraxx® Europe, Hi Vol and Crossover 5 Year Series respectively valid at the time of introduction of the Futures Contract in case of an anticipated and an actual credit event.

[...]

3.2 Position Closing Adjustments

Position Closing Adjustments, if these do not take place between 13:30 CET on the day of trade and before 13:30 CET of the following trading day:

Contract:	Fee per Contract:
[...]	
Credit Derivatives	
iTraxx® Europe 5 Year Index Future**, iTraxx® Europe Hi Vol 5 year Index Future**, iTraxx® Europe Crossover 5 Year Index Future**	EUR 0.80
Single Credit Recovery Future	EUR 0.20
Inflation Derivatives	
Euro Inflation Future	EUR 1.00

** Credit Futures Contract on the iTraxx® Europe, Hi Vol and Crossover 5 Year Series respectively valid at the time of introduction of the Futures Contract as well as Credit Futures Contract on the new version of the iTraxx® Europe, Hi Vol and Crossover 5 Year Series respectively valid at the time of introduction of the Futures Contract in case of an anticipated and an actual credit event.

3.3 Cash Settlement

Contract:	Fee per Contract:	Maximum Fee for Contracts on the same underlying of each A-, P- and M-accounts
[...]		
Credit Derivatives		
iTraxx® Europe 5 Year Index Future**, iTraxx® Europe Hi Vol 5 year Index Future**, iTraxx® Europe Crossover 5 Year Index Future**	EUR 0.40	
Single Credit Recovery Future	EUR 0.10	
<u>Inflation Derivatives</u>		
<u>Euro Inflation Future</u>	<u>EUR 0.50</u>	

** Credit Futures Contract on the iTraxx® Europe, Hi Vol and Crossover 5 Year Series respectively valid at the time of introduction of the Futures Contract as well as Credit Futures Contract on the new version of the iTraxx® Europe, Hi Vol and Crossover 5 Year Series respectively valid at the time of introduction of the Futures Contract in case of an anticipated and an actual credit event.

[...]